State Profile

Winter 2005

Indiana

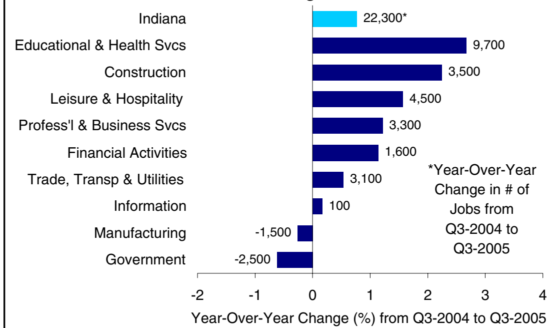
Indiana experienced uneven job growth across sectors and geography.

- Indiana's year-over-year job growth declined for the second straight quarter to 0.8 percent, substantially below the 1.7 percent national rate at third quarter 2005 (see Chart 1). The manufacturing and government sectors, which added jobs in the previous quarter, posted sizeable job losses, reflecting the state's ties to the struggling auto industry and reduction in local education and state government jobs.
- The **Indianapolis metro,** which accounts for 30 percent of the state's employment, experienced a decline in job growth from 1.1 percent the previous quarter to 0.5 percent at third quarter 2005, with most major sectors reporting slower growth.
- **Kokomo** and **Anderson** face potential future employment concerns related to the recent bankruptcy filing of auto parts supplier Delphi Corporation. Delphi employs an estimated 5,500, or 11.4 percent, of Kokomo's workforce and an estimated 1,000, or 2.2 percent, of Anderson's workforce.

Signs of financial strain remain evident for many Indiana households.

- A combination of relatively slow population growth, steady housing starts, uneven employment conditions, and slow income growth contributed to relatively slower home appreciation and produced conditions for added financial stress for many Indianans.
- Homes in the state appreciated 5.0 percent from third quarter 2004 to third quarter 2005, compared to 12.0 percent for the nation, a situation that limits Indiana homeowners from tapping home equity to the same extent as those in other parts of the nation.
- The percent of residential mortgage loans in foreclosure was 2.7 percent compared to 1.0 percent for the nation at third quarter 2005.
- Indiana ranked first among all states for the rate of personal bankruptcies with 13.5 per thousand population at third quarter 2005 compared to 7.2 for the nation.

Chart 1: Indiana Job Growth Has Been Uneven Among Sectors



Source: Bureau of Labor Statistics

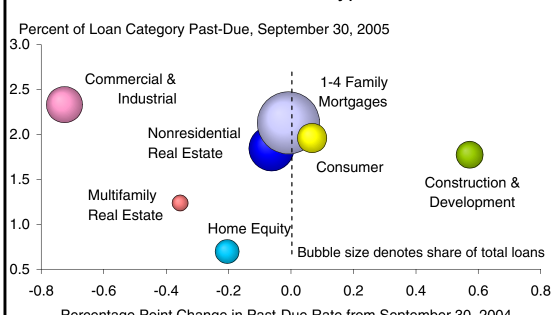
Table 1: Indiana Earnings Performance Unchanged

Income statement contribution (percent of average assets)	3 months ended Sep 30 2004	3 months ended Sep 30 2005	Percentage Point Change
Net Interest Income	3.33	3.36	0.03
Noninterest Income	0.78	0.78	0.00
Noninterest Expense	-2.71	-2.74	-0.03
Provision Expense	-0.20	-0.18	0.02
Security Gains & Losses	0.05	0.05	0.00
Pretax Net Income	1.25	1.27	0.02
Income Taxes	-0.36	-0.38	-0.02
Net Income (ROA)	0.89	0.89	0.00

Source: FDIC

Note: Merger-adjusted data for Indiana's Community Institutions

Chart 2: Loan Performance Improved for Most Loan Types



Source: FDIC Note: Merger-adjusted data for Indiana's Community Institutions

Higher energy prices consume relatively large shares of Indiana household budgets.

- Forecasts predict consumer costs for winter heating fuels will rise considerably this winter. Vectren Corp, a large provider of natural gas in central and southern Indiana, reports expected energy cost increases this winter of as much as 38 to 55 percent due to higher natural gas prices. Vectern's southern Indiana customers may see their gas prices rise more because they receive much of their gas from pipelines in the Gulf of Mexico, some of which have experienced operational difficulties. NIPSCO, a large provider of natural gas in northern Indiana, estimates natural gas prices will increase by 43 percent this winter.

- Natural gas represents a large share, 38 percent, of Indiana residential energy expenditures compared to the nation at 27 percent.[1] In addition, an estimated 70 percent of Indiana homes use natural gas as their principal heating fuel.[2]

Earnings performance remained stable for Indiana community institutions.[3]

- Aggregate profitability (return on assets) for the third quarter was unchanged from a year ago, and other major earnings metrics remained relatively stable for Indiana community institutions (see Table 1).

- Net interest margins improved slightly from the year-ago quarter as the yield on earning assets increased for the fifth consecutive quarter. Asset yields benefited from higher interest rates and continued strong growth in commercial real estate loans, which typically are higher yielding. Total funding costs rose slower relative to asset yield increases, as banks were able to delay increasing deposit rates.

Indiana community institutions maintained strong loan quality.

- The past-due loan rate declined slightly to 1.9 percent for Indiana community institutions. Most major loan categories posted declines in the past-due rate with the exception of construction and consumer loans, which remain at moderate levels (see Chart 2).

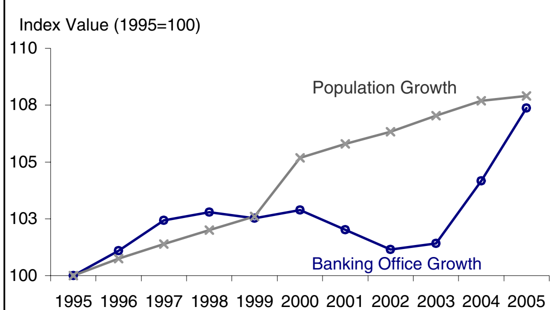
- Despite strains on households discussed earlier, insured institutions reported a relatively low level of piggyback loans made in the state's Core Based Statistical Areas in 2004. Piggybacks represented 6.9 percent of 1-4 family home purchase loans, compared to 12.8 percent for the nation.[4]

Indianapolis's population growth spurred new banking locations.

- Indiana bank offices grew more rapidly in 2004 and 2005 after lagging population growth for a number of years (see Chart 3).

- The Indianapolis metro (Indy) accounted for 71 percent of the state's office growth over the past three years (see Table 2) after losing a net 13 banking offices from 1995 to 2002. Within Indy, Hamilton County experienced the greatest percentage increase in offices over the past three years. These areas experienced significant deposit and population growth that outpaced state and national rates. After the recent bank office growth, the number of people per office in Indy and Hamilton returned to levels similar to 1995.

Chart 3: Banking Office Growth Has Caught Up With Population Growth in Indiana



Sources: FDIC and U.S. Census Bureau.

Table 2: Indianapolis Metro Dominates Banking Office Growth

Location	Office Growth	Deposit Growth	Population Growth	Population per Office	
	2002 to 2005			1995	2005
U.S.	6.3%	28.8%	2.6%	3,309	3,243
Indiana	6.2%	12.0%	1.5%	2,679	2,675
Indianapolis	20.0%	21.4%	3.5%	2,841	2,801
Hamilton	38.0%	37.3%	12.5%	2,335	2,395

Sources: FDIC, Census Bureau, Economy.com

[1] U.S. Department of Energy, data as of 2001.
[2] U.S. Census Bureau, 2004 American Community Survey.
[3] Community institutions are insured banks and thrifts with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.

[4] Data reported by insured institutions as part of the Home Mortgage Disclosure Act. Piggyback loans refer to second liens on home purchase loans.

Indiana at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.8%	1.2%	1.7%	1.2%	-0.2%
Manufacturing (19%)	-0.3%	0.2%	0.7%	-0.1%	-2.7%
Other (non-manufacturing) Goods-Producing (5%)	2.2%	2.3%	2.4%	2.3%	-0.9%
Private Service-Producing (61%)	1.3%	1.6%	2.0%	1.6%	0.3%
Government (14%)	-0.6%	0.3%	0.9%	0.8%	1.3%
Unemployment Rate (% of labor force)	5.4	5.1	5.3	5.2	5.3

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	4.3%	4.9%	4.9%	3.7%
Single-Family Home Permits	0.7%	-0.8%	-8.4%	-0.2%	2.4%
Multifamily Building Permits	11.5%	-9.3%	-39.4%	-11.9%	-8.3%
Existing Home Sales	12.3%	6.1%	0.9%	8.4%	-3.8%
Home Price Index	4.9%	5.0%	3.7%	3.3%	2.9%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	13.52	10.37	8.98	8.76	9.00

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	191	193	197	197	206
Total Assets (in millions)	103,410	103,419	113,180	102,739	117,429
New Institutions (# < 3 years)	3	3	1	2	4
Subchapter S Institutions	16	16	15	15	16

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.81	1.89	1.94	2.23	2.13
ALLL/Total Loans (median %)	1.08	1.09	1.13	1.11	1.17
ALLL/Noncurrent Loans (median multiple)	1.21	1.51	1.42	1.40	1.68
Net Loan Losses / Total Loans (median %)	0.08	0.07	0.11	0.14	0.16

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.64	9.63	9.48	9.51	9.59
Return on Assets (median %)	0.84	0.84	0.86	0.79	0.90
Pretax Return on Assets (median %)	1.21	1.22	1.20	1.11	1.26
Net Interest Margin (median %)	3.73	3.72	3.73	3.66	3.73
Yield on Earning Assets (median %)	5.97	5.80	5.55	5.57	5.86
Cost of Funding Earning Assets (median %)	2.28	2.12	1.78	1.79	2.09
Provisions to Avg. Assets (median %)	0.11	0.10	0.12	0.13	0.16
Noninterest Income to Avg. Assets (median %)	0.72	0.69	0.71	0.68	0.72
Overhead to Avg. Assets (median %)	2.79	2.76	2.82	2.78	2.76

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	71.1	70.3	70.3	69.8	68.2
Noncore Funding to Assets (median %)	24.1	23.9	23.2	22.4	21.9
Long-term Assets to Assets (median %, call filers)	21.6	21.7	22.6	22.0	22.7
Brokered Deposits (number of institutions)	68	63	60	64	52
Brokered Deposits to Assets (median % for those above)	4.3	4.7	4.6	4.5	3.9

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	62.4	66.4	61.4	63.9	63.0
Commercial Real Estate	168.3	167.3	154.6	161.8	147.8
Construction & Development	30.5	30.0	26.9	26.4	21.6
Multifamily Residential Real Estate	6.6	5.8	5.0	5.3	4.7
Nonresidential Real Estate	116.7	119.4	119.3	121.0	113.6
Residential Real Estate	290.6	297.8	299.0	300.9	308.2
Consumer	38.3	38.9	43.6	41.2	47.6
Agriculture	34.9	31.7	30.6	27.8	30.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Indianapolis, IN	56	24,898	< $250 million	128 (67%)
Evansville, IN-KY	22	5,256	$250 million to $1 billion	47 (24.6%)
Fort Wayne, IN	23	4,535	$1 billion to $10 billion	15 (7.9%)
South Bend-Mishawaka, IN-MI	15	3,673	> $10 billion	1 (0.5%)
Columbus, IN	8	2,432		